



By Patrick Graves

January was filled with noisy and occasionally apocalyptic debate over the so-called “fiscal cliff.” And then, after all the handwringing... we went over. Today, the automatic federal spending cuts called “sequestration” are beginning to kick in.

So now what?

Good question, and one that Texas communities that rely on defense and the military would like to answer. Despite its huge presence in our state — about a quarter-million military and civilian personnel at a dozen installations and more than 15,000 defense contractors, including seven of the 10 largest — no one seems to know for sure.

Sequestration and More

The U.S. Department of Defense (DoD) initially was slated to absorb half of an \$85 billion reduction in federal spending for fiscal 2013 called for under sequestration (budgetary jargon for the cancellation of spending authority). In all, the sequestration is a nine-year process that could eliminate more than \$500 billion of the Pentagon’s funding.

For Texas, the impacts of such cuts could be significant. A National Association of Manufacturers study released in June

2012 predicted that defense-related sequestration cuts could cost Texas 109,000 jobs.

New legislation, however, has already affected the sequestration picture.

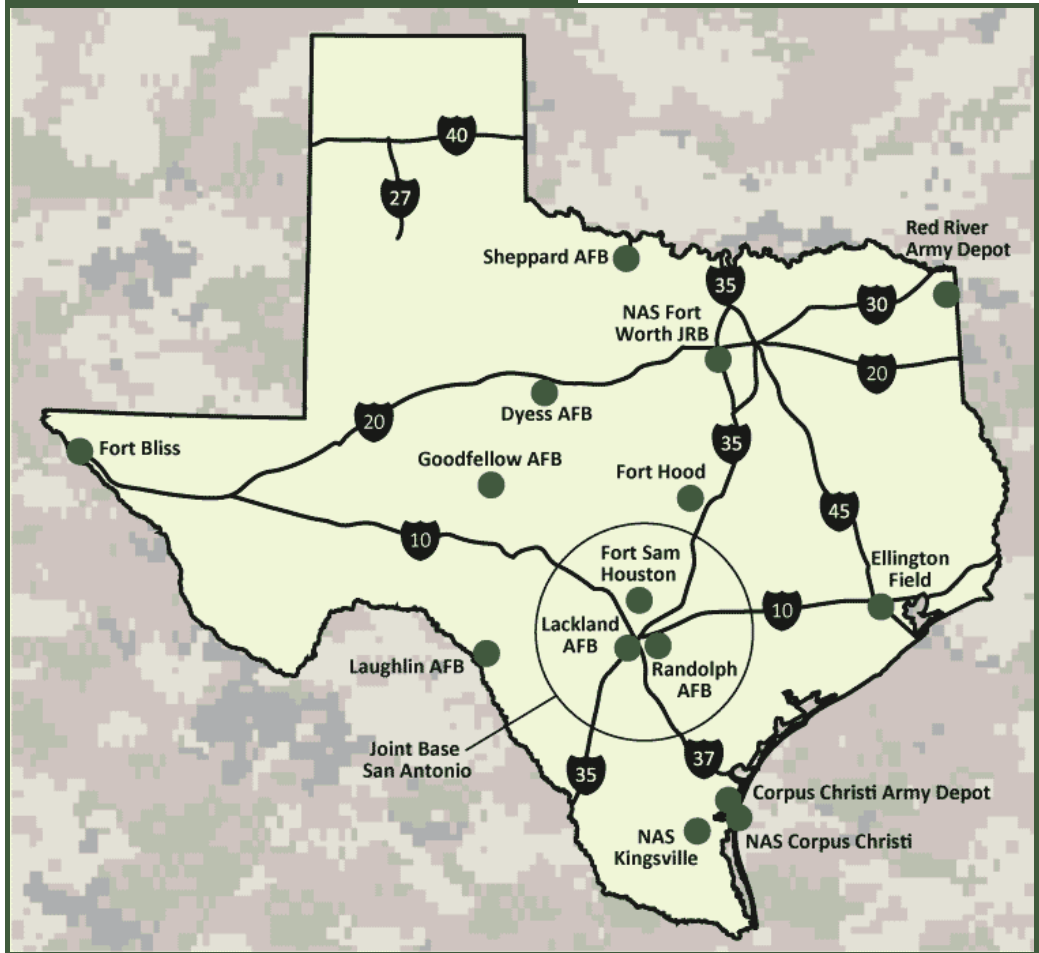
A sharply divided Congress has not approved a formal federal budget in years, instead meeting daily expenses with shorter-term legislation called continuing resolutions. The most recent of these, approved in late March, reduced the 2013 defense cuts by \$10.4 billion.

More recently, in May the U.S. Office of Management and Budget implemented "technical adjustments" to the sequestration process that reduced the total 2013 sequester cuts to \$80 billion.



Defense contributes more than 4 percent of Texas' gross state product.

ACTIVE MILITARY INSTALLATIONS 2012



Text Alternative

Even so, defense spending is slated to decline. In April, DoD announced plans to shave its civilian workforce by 5 to 6 percent, or about 40,000 to 50,000 positions, by the end of 2018, to help meet what Joint Chiefs of Staff Chairman Martin Dempsey has called “the steepest decline in our budget ever.” And in May, DoD said it would furlough “most” of its 800,000 civilian employees without pay for 11 days, in a further attempt to cut spending.

Future budget actions, of course, will alter the picture further. The Obama administration and Congressional Republicans have proposed their respective budgets for fiscal 2014, which begins on Oct. 1. The former would reduce overall defense spending by 0.7 percent, to \$526.6 billion, a \$3.9 billion decrease; the latter would cap defense spending at \$560 billion. Neither budget is likely to pass unaltered, however.

The White House also is proposing another round of base closures beginning in 2015. And U.S. Defense Secretary Chuck Hagel has ordered a comprehensive review of DoD that will examine civilian-military personnel ratios, the size of our fighting forces and the use of contractors.

BILLIONS SPENT IN TEXAS

In federal fiscal 2012, the Department of Defense authorized \$24 billion in spending in Texas with 10 large defense contractors.

Top 10 Defense Contractors Working in Texas, Fiscal 2012

Corporation	Amount
Lockheed Martin Corp.	\$11,676,228,326
Royal Dutch Shell PLC	\$2,863,290,795
L-3 Communications Holdings Inc.	\$2,705,047,765
Bell-Boeing Joint Project Office	\$2,693,181,293
Raytheon Co.	\$1,219,754,581
Valero Energy Corp.	\$1,203,834,583
Textron Inc.	\$531,555,603
Petromax LLC	\$426,618,728
Dell Inc.	\$373,729,938
Kelly Aviation Center LP	\$359,190,264
Total	\$24,052,431,878

Source: Federal Procurement Data System

Note: These sums represent DoD contractual obligations for work performed in Texas during the federal fiscal year by these companies and their subsidiaries.

Incoming!

Reduced defense spending will inevitably affect us. The Pew Center on the States reports that defense contributes more than 4 percent of Texas' gross state product. Texas military installations alone had an \$83 billion overall economic impact in fiscal 2011, generating domestic disposable income of about \$54 billion, according to estimates prepared by the Comptroller's office for the Texas Military Preparedness Commission, part of the Governor's Office of Economic Development and Tourism.

These bases, of course, can be vital to their communities. Fort Hood, the Army's largest active-duty armored post, hosts more than 82,000 military personnel and a civilian staff of more than 21,000, making it the state's largest single-site employer. Deep enough spending cuts could have a serious impact on the nearby towns in which most Fort Hood soldiers and their families live.

In three major Texas metropolitan areas, however, the overall effects of defense cuts may be painful as well, if somewhat less pronounced.

River City Military

San Antonio is home to the DoD's largest joint military base, 55,000 acres comprising Fort Sam Houston and Lackland and Randolph air bases that were merged administratively in the 2005 base realignment and closure (BRAC) process.

Joint Base San Antonio (JBSA) also operates eight other locations (including the DoD's largest hospital) and has more than 200 "mission partners" — various commands, institutes, agencies and other military entities with a sweeping variety of missions. In all, JBSA is home base for more than 250,000 personnel, including the DoD's largest student population.

JBSA reports that it has already reduced its non-personnel budget for fiscal 2013 by 22 percent.

A 2012 study commissioned by the city of San Antonio reported that the military contributed \$27.7 billion in overall economic impact to the city in 2011, including spending by employees, contractors and suppliers. According to the city's chief military liaison official, defense has supplanted medicine and healthcare as the area's top economic contributor.

The Greater San Antonio Chamber of Commerce is lobbying against defense spending cuts with some success. Most notably, a military tuition assistance benefit that initially fell victim to sequestration has been reinstated — good news for local higher education institutions that include significant numbers of military



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— Robert Murdock,
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personnel in their student bodies.

Chamber officials are addressing concerns about the sequester mainly by communicating with their congressional delegation. But the new defense climate is keeping them guessing.

“Uncertainty is more and more certain,” says Robert Murdock, director of San Antonio’s Military Affairs Office and president of the Association of Defense Communities. Until the sequester and federal budget issues are resolved, contingency planning will be difficult, although Murdock expects cuts at JBSA to be at the margins.

Travel, grounds maintenance and repairs and various other outsourced services are being curtailed, he says, and military personnel may be used for base security, displacing civilian contract workers and possibly limiting public access to the base.

An annual air show is being canceled, as have performances elsewhere by the Navy’s Blue Angels and the Air Force’s Thunderbirds precision flying teams. And JBSA hosted fewer events during the city’s annual Fiesta celebration in April.

ECONOMIC IMPACT OF MILITARY INSTALLATIONS IN TEXAS, 2011

In 2011, Texas’ 12 military installations contributed \$83 billion to the Texas economy, including more than a quarter-million jobs.

Installation	Contribution to GDP (in billions)	Contribution to Disposable Income (in billions)	Military Personnel	Civilian Personnel	Contractor Personnel	Total
Joint Base San Antonio	\$26.0	\$15.9	50,043	23,720	9,363	83,126
Fort Hood	\$25.3	\$18.6	46,764	7,470	13,965	68,199
Fort Bliss	\$14.2	\$8.5	28,700	8,109	3,153	39,962
NAS Fort Worth	\$5.2	\$4.6	1,986	1,597	14,979	18,562
Sheppard AFB	\$3.2	\$2.0	6,423	1,931	1,661	10,015
Goodfellow AFB	\$2.4	\$1.4	5,807	1,102	411	7,320
Dyess AFB	\$1.8	\$1.0	4,325	713	66	5,104
Red River Army Depot	\$1.1	\$0.7	156	4,458	1,402	6,016
Laughlin AFB	\$0.1	\$0.5	1,935	916	250	3,101
NAS Kingsville	\$0.5	\$0.3	597	278	790	1,665
NAS Corpus Christi	\$1.6	\$1.0	1,987	5,298		7,285
Corpus Christi Army Depot	\$1.7	\$1.1	14	4,067	1,438	5,519
Total	\$83.0	\$55.6	148,737	59,659	47,478	255,874

Source: Comptroller analysis performed for the Texas Military Preparedness Commission

The most profound impact on San Antonio, however, may be felt later in the decade.

The Alamo City's long-term economic development goal over the next eight years is to become a high-tech business mecca. Its SA2020 plan targets biosciences/healthcare, IT/cybersecurity and the aerospace industries for growth and expansion. In 2011, those sectors attracted more than \$1.5 billion in defense contracts to San Antonio, the majority in aerospace.

How much the sequester may dampen those prospects is about as predictable as Texas weather, but some impact is bound to be felt. The Aerospace Industries Association claims that more than 87,000 Texas aerospace and defense jobs may be at risk.

Ground Zero for aerospace in SA is the Port San Antonio industrial complex, formerly Kelly AFB, a foreign trade zone where 13 companies employ more than 4,000 workers. Air Force maintenance delays could mean a 33 percent decrease in the port's military workload, according to U.S. Rep. Joaquin Castro, mostly at Boeing.

El Paso and Fort Bliss

El Paso's economy depends heavily on Fort Bliss, a sprawling base covering 1.1 million acres in two states that employs more than 40,000, including some 10,500 civilians, with an annual operating budget exceeding \$3.6 billion.

Fort Bliss is the Army's largest training facility as well as the site of the William Beaumont Army Medical Center, one of the services' largest medical complexes. It's also the El Paso area's largest employer, employing 11 percent of the civilian workforce and providing 16 percent of its wages, according to the Greater El Paso Chamber of Commerce.

A recent chamber study by the University of Texas at El Paso's Institute for Policy and Economic Development estimated the base's annual economic impact at almost \$6 billion, supporting about 62,000 direct and related jobs generating almost \$4.2 billion in wages. Accounting for the impact of construction, estimated at an annual average of almost \$112 million, Fort Bliss accounts for 12 percent of El Paso County's economic output.

Given such importance, any significant defense cuts are likely to ripple throughout the area.

Fort Bliss' operations actually expanded in the previous round of BRAC decisions, but the next BRAC round is expected to fall most severely on the Army, which is already scaling back due to the troop withdrawals from Iraq and Afghanistan.



[The funding pinch] "will weave through all the economic sectors of the El Paso area."

— Rick Glancey,
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Defense cuts are affecting private contractors as well. In January, Boeing announced plans to consolidate three El Paso-area military electronics facilities and lay off 160 of 370 employees, beginning sometime after midyear. At the time, Mayor John Cook was quoted as describing Boeing's decision as a worst-case scenario.

Rick Glancey, director of military affairs for El Paso's Sierra Providence Health Network, is just as concerned about El Paso's small business community, saying that mom and pops that rely heavily on sales to Fort Bliss and its population will be hurting too.

The funding pinch "will weave through all the economic sectors of the El Paso area," Glancey says.

In March, El Paso chamber officials and others visited at least three different departments in the Pentagon, pleading their case as budgets and force structures are being reassessed.

"We've done our diligence," says Glancey, who chairs the chamber's Armed Forces Division. "We're not going to sit by idly and wait."

Defense in Cowntown

Fort Worth hosts the Naval Air Station Fort Worth Joint Reserve Base, employing about 17,000 people. But just as important are two of the state's largest defense contractors, Lockheed Martin and Bell Helicopter, both with extensive operations in Fort Worth.



The new F-35 Joint Strike Fighter (JSF) is assembled in Fort Worth.



Lockheed builds the F-35 Joint Strike Fighter (JSF), a nearly \$400 billion program that has been plagued by years of delays and massive cost overruns. Now, facing cutbacks by its biggest customer, the Fort Worth operation already has shed about 330 of more than 14,000 Tarrant County employees.

Portions of the Bell-Boeing V-22 Osprey manufacturing process take place in Amarillo and Fort Worth.

News reports indicate that some prospective foreign buyers of the F-35, most recently the Dutch, may cut their orders for the stealthy plane. The U.S. has postponed some orders, and Lockheed and DoD are negotiating two more purchasing cycles. Company officials are wary of a “death spiral” whereby lessened demand drives up the unit price, which in turn could reduce demand further.

Nevertheless, the Obama administration’s proposed 2014 budget maintains funding for the F-35 at levels similar to 2013’s, indicating continuing Pentagon support for the fighter. Contract talks with the federal government should be finalized this summer.

Bell, a Textron subsidiary headquartered in Fort Worth, employs more than half of its 11,000-member workforce there; it also operates a plant in Amarillo. Along with helicopters, it is co-manufacturer of the Bell-Boeing V-22 Osprey, a multi-task military transport that hovers like a chopper but flies like a plane. Despite being under contract through 2017 to produce more than 450 Ospreys, in early March Bell announced a second early retirement offer, this one to full-time, non-union employees age 55 or older.

Even so, a diversified economy may help Fort Worth deal with defense cuts better than some of its counterparts.

“We are relying on what we have put in place due to the lessons learned in the 1990s and progress made since that time,” says Bill Thornton, president and CEO of the Fort Worth Chamber of Commerce. “We will continuously improve upon those existing community resources as the outcomes [of sequestration] become more available.”

And Across the State

There’s no question in the mind of Paul Paine, chairman of the Texas Military Preparedness Commission, that the sequester will have a statewide impact. He acknowledged that investment in and expansion of defense-related research and development may suffer. Ultimately, the impact will depend on the cuts’ duration and depth, he said, especially regarding furloughed civilian employees.

“If it’s a few months, people hang on,” says Paine, a retired Navy pilot who heads a downtown revitalization nonprofit in Fort Worth. “Civilians won’t uproot... if they have a chance to come back.”

Looming ahead is Obama’s call for another BRAC process beginning in 2015. In addition to the anticipated Army reductions,



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the Air Force is on record as wanting to shutter up to a third of its facilities. "That's a dynamic we've never had before," Paine says.

Murdock says he will be surprised if no Texas bases are closed in the next BRAC round.

The commission has been grappling with how to respond to these challenges. Paine says he favors a statewide military task force to get the word out. Given that the military is one of the state's largest economic contributors, Paine says, "We have to defend it."

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